



# Creating a future-ready IT function



# Digital leadership is a 'do or die' proposition

Digital solutions are like oxygen, enabling businesses to run at market speed. Digital is now mainstream in every organisation in every sector – it isn't just about tech giants or unicorn start ups. Global market intelligence firm IDC predicts that by 2022, 80 percent of revenue growth will depend on digital offerings and operations<sup>1</sup>. In short: your organisation's very survival may depend on the way it delivers technology services, responds to issues and manages expectations – which has huge implications for the future IT function.

Rather than debating what digital means, we're now using it to deliver value. KPMG's recent study of IT leadership found that 61 percent of companies that are effective at using digital technologies enjoy higher revenue growth than their competition<sup>2</sup>. And, in manufacturing, a sector not known for digital innovation, the figure is almost 70 percent<sup>3</sup>. According to Steve Bates, Principal and global leader of KPMG's CIO Centre of Excellence, "We are seeing businesses that have existed for tens/hundreds of years starting to successfully digitally transform their organisations, integrating their front, middle, and back offices into what KPMG calls the, connected enterprise, all laser focused on the customer." Companies demonstrating a greater ability to execute on a customer-centric strategy spanning the organisation are eight times as likely to deliver experiences that consistently exceed customer expectations<sup>4</sup> and 38 percent more likely to report greater profitability<sup>5</sup>. As Steve Bates continues, "If, like many organisations, you focus solely on customer-facing operations, you may struggle to deliver value to customers while delivering a meaningful return to the company.

CEOs appear to be taking notice and taking action, with more than half (54 percent) saying they are actively disrupting the sector in which they operate, rather than waiting to be disrupted by competitors<sup>6</sup>. Whether you call it disruption or digital transformation, IT's future is likely to be inexorably bound to the connected enterprise.

As Bates concludes "Those companies that are winning in the market are not asking IT to keep the lights on. Their boards fully recognise importance of technology in driving growth and reducing risk".



**There are no separate business and technology strategies. There's just strategy, driven by technology. The opportunity for IT is to make technology accessible to everyone, enable it without friction and empower teams to harness technology to unleash creativity."**

Steve Bates, Global Lead, CIO Centre of Excellence, KPMG International

While there is a great deal of investment in and senior leadership commitment to tomorrow's customer, more than 80 percent of leaders are concerned about their organisation's ability to design and implement the future operating model<sup>7</sup>. And 78 percent of CIOs believe their digital strategy is only moderately effective, or worse<sup>8</sup>.

1 – IDC Press Release, IDC Launches New Framework to Accelerate Digital Transformation and Help ...Enterprises Become Digital Natives (IDC, Oct 2017).

2 – Harvey Nash/KPMG CIO Survey 2018 (Harvey Nash and KPMG International, 2018).

3 – A commissioned study conducted by Forrester Consulting on behalf of KPMG International, Sept 2018, ...of 1,299 global professionals involved with customer-centric strategy decisions at their organizations.

4 – KPMG CEO Outlook 2018 (KPMG International, 2018).

5,6 – KPMG Global transformation Study 2016 (KPMG International, 2016).

7,8 – Harvey Nash/KPMG CIO Survey 2018 (Harvey Nash and KPMG International, 2018).

## Six ingredients for delivering business value

Digitally leading IT functions are embracing the following ingredients to enable their business partners to innovate at market speed.

### 1. Rewriting a market speed operating model

Becoming future-ready means fundamentally changing the IT operating model – the way the IT estate brings value to the business – to become a more connected enterprise. KPMG's Steve Bates explains, "IT operating model' does not mean the – 'IT function as a whole'. For many companies this means a federation of IT and business-led capabilities and external partners. Instead of a single monolithic structure, the future operating model is a blend of different structures and speeds tailored to meet product or service objectives."

This rewrite realigns people and capabilities from siloed projects and activities to, full stack, customer experience teams that deliver new products and services at speed and scale. Agility is critical – to flex delivery based on market demands. And not all products have to be delivered at the same speed to maximise value.

Bates sums up the approach, "The future of the IT operating model is really a recognition that the enterprise's DNA needs to change. That the era of supply and demand IT is over, while monolithic organisational structures don't support the customer experience. The challenge is to understand how much of any one element is needed to deliver value. Over the next five years, most companies are likely to invest in getting the mix right. How many products do we need? How much cloud should be offered by how many providers? Where do we scale agile delivery? What portions of the value chain need machine learning/AI? What intellectual property do we retain versus buy? An inflexible operating model could be the technical debt of the future."

### 2. Dynamic investment

Moving at market speed also means that resourcing – of both money and people – needs to keep pace with your demands. "There is a popular saying: 'No bucks, no Buck Rodgers,'" says Jason Byrd, leader of Technology Business Management at KPMG in the US. "You can have the fastest agile development shop in the market and leverage the latest toolchain, but if it takes 6-9 months to release capital to fund an idea, then you've defeated the purpose."

Large capital outlays are being replaced by smaller, more frequent investments that return value quickly. Organisations are increasingly 'thinking like a venture capitalist', and encouraging experimentation. This is a significant shift for IT, finance and business stakeholders.

Companies that thrive in the digital era embrace the following IT investment principles:

- Fund value instead of projects: shift to funding of products linked to business or customer value, which are connected to the overall business strategy
- Adopt iterative and leaner funding: Be willing to fund products before all of the details are defined

- Decentralise and delegate: decisions are taken by business and technology leaders closest to the project in question.
- Catch bad ideas faster: adopt a mindset and toolset to enable smarter and faster decisions, swiftly discarding ineffective ideas.
- Communicate transparency and value: transparency should be built across the entire lifecycle of products from ideation through support, sharing results and value.

The results speak for themselves. By shifting to a dynamic investment model, one large healthcare company improved forecasting accuracy to more than 95 percent and speed by 90 percent, while reducing annual application portfolio cost by more than £75,000<sup>9</sup>. As Jason Byrd notes, “Both the finance and agile teams committed act and fail fast to learn and advance together. They’re not afraid to halt initiatives and free resources for other projects”.



### 3. Flexible IT workforce

IT workforces have gone through constant change in recent years. Outsourcing transformed the way an IT workforce was provided. Then globalisation changed the way the IT workforce delivered. In future, the emergence of Gen Z, hyper-automation and the gig economy should further revolutionise. IT is expected to be the lead facilitator of the market speed operating model and the connective tissue throughout the enterprise. IT is set to establish a broad ecosystem of talent – retained, sourced, and contracted – while using intelligent automation in areas like agentless service desk, virtual operational engineers, and machine learning to support development and testing.

We also expect the Chief HR Officer and CIO to reinvent how they acquire talent, manage employee engagement and build better culture. With between 20-30 percent of the working-age population in the US engaged in some form of ‘gig’ work<sup>10</sup> and an estimated 6 billion hours of skilled labour to be automated by 2022<sup>11</sup>, creating a great culture is a top challenge in attracting, developing and retaining the future IT skill pool.

Older, more experienced workers are retiring and employers should accommodate the dramatically different needs of Millennials and Gen Z professionals. When HR and IT collaborate to reduce the burden on employees, their work should become easier and more enjoyable, improving job satisfaction and loyalty. Additionally, intelligent automation, machine learning and AI platforms can lead to a cognitive shift. Beyond simply automating rote activities, these technologies should enable workers to gain insights and increase productivity in ways that were previously impossible. This move from low-value activities to higher value creation can directly contribute to the top and bottom lines.

An on-demand future IT workforce composed of partners, providers and staff could give employees the freedom to do the work they desire in the way they want to do it.

9 – TBM Council Case Study - IT’s role in efficient healthcare delivery (TBM Council, 2017)

10 – Independent Work: Choice, Necessity and the Gig Economy (McKinsey Global Institute, 2017).

11 – The Future of Jobs 2018 (World Economic Forum, 2018).

## 4. Modern delivery

In a connected enterprise, all parts of the IT value chain align to customer outcomes. Instead of silos that limit IT agility, these organisations integrate the business, engineering, testing and operations into, full-stack, teams. Much of the value chain, is automated creating a culture of collaboration focused on customer/employee outcomes at the speed the market demands.

Concepts like Agile, Scrum, Product Management and DevOps have been around for some time. Now companies are leveraging new approaches like Scaled Agile Frameworks (SAFe) and Sire Reliability Engineering (SRE) to scale and sustain outside the bounds of the IT function.



**Successful modern delivery organisations take a holistic approach, with cultural change as a central theme, simplifying, aligning and fully empowering business and IT teams.”**

Mike Wolf, Lead, Modern Delivery Services, KPMG in the US

Recent Forrester research indicates that companies that combine Agile and DevOps transformation are 15 percent more likely to achieve business value, 25 percent more likely to gain business and IT alignment, and 35 percent more likely to improve technical quality<sup>12</sup>. Early adopters like Spotify and Capital One embrace the connected enterprise, building loosely coupled, tightly aligned squads that move fluidly while sticking to narrow objectives.

As with any major delivery model shift, critical areas are often overlooked. Mike Wolf, leader of KPMG’s Modern Delivery services in the US, says “Compliance, regulatory reporting, data protection, controls, and performance management are all essential to successfully scaling modern delivery. There is clearly a difference between doing things right and doing things fast.”

## 5. Customer trust

In KPMG’s 2017 global survey of CEOs 61 percent believe that building customer trust is a top priority. And 92 percent of C-suite executives worry about how trust in data could impact their reputation<sup>13</sup>. Consumers are increasingly uneasy about how their data is being used, with nearly half reporting that they are more concerned than they were 5 years ago<sup>14</sup>. “Consumers are anxious, with younger generations feeling it the most,” says Julio Hernandez, KPMG’s head of global Customer Advisory and US Customer Advisory lead. “They like new technology, but are wary about handing over personal data and what that could mean for their privacy and security. They want to feel that they are in control at every stage of the business relationship.”

This lack of trust is estimated to cost global brands £1.9 trillion a year, according to a recent study<sup>15</sup>. IT increasingly finds itself in the center of the trust conversation, from how data is used and protected to how products are developed and deployed. Boards regularly ask CIOs about technical risk stances and threat landscapes, as well as overall organisational preparedness.



**Technology leaders have a unique perspective, relevant experience, tools and capabilities to lead both innovation and digital strategy as well as set the tone at the top from a risk governance and controls perspective.”**

Martin Sokalski, Global Leader, Emerging Technology Risk, KPMG International

According to KPMG’s global leader for Emerging Technology Risk, Paul Sokalski, the traditionally siloed risk and security functions should be shifted upstream and embedded into the front end of the technology lifecycle. “For some time, mature software and engineering companies have been designing and developing products that are secure by design. However, as more traditional companies expand into the digital business model, it is incredibly important that they both design products and handle data with a lens on customer trust.”

12 – Percentages calculated by KPMG International based on figures included within Forrester blog: “[Agile Only? No thanks! Agile + Devops, Please! Plus DevOps Is Slowly But Steadily Reaching Enterprise Scale](#)”, by Diego Lo Giudice, December 21, 2017.

13,14 – Me, my life, my wallet (KPMG International, 2018).

15 – Lack of trust costs brands \$2.5 trillion per year (Social Media Week, 2018).

## 6. Data as an asset

For the connected enterprise, data is the most significant intangible asset, powering new technologies and third-parties providing everything-as-a-service. But these approaches are only as strong as the underlying data feeding them according to Traci Gusher-Thomas, KPMG Innovation & Enterprise Solutions Principal in the US, “Any given organisation has 80 percent or more of its data locked up as unstructured or ‘dark’ data, making it difficult to analyse and gain insights.”

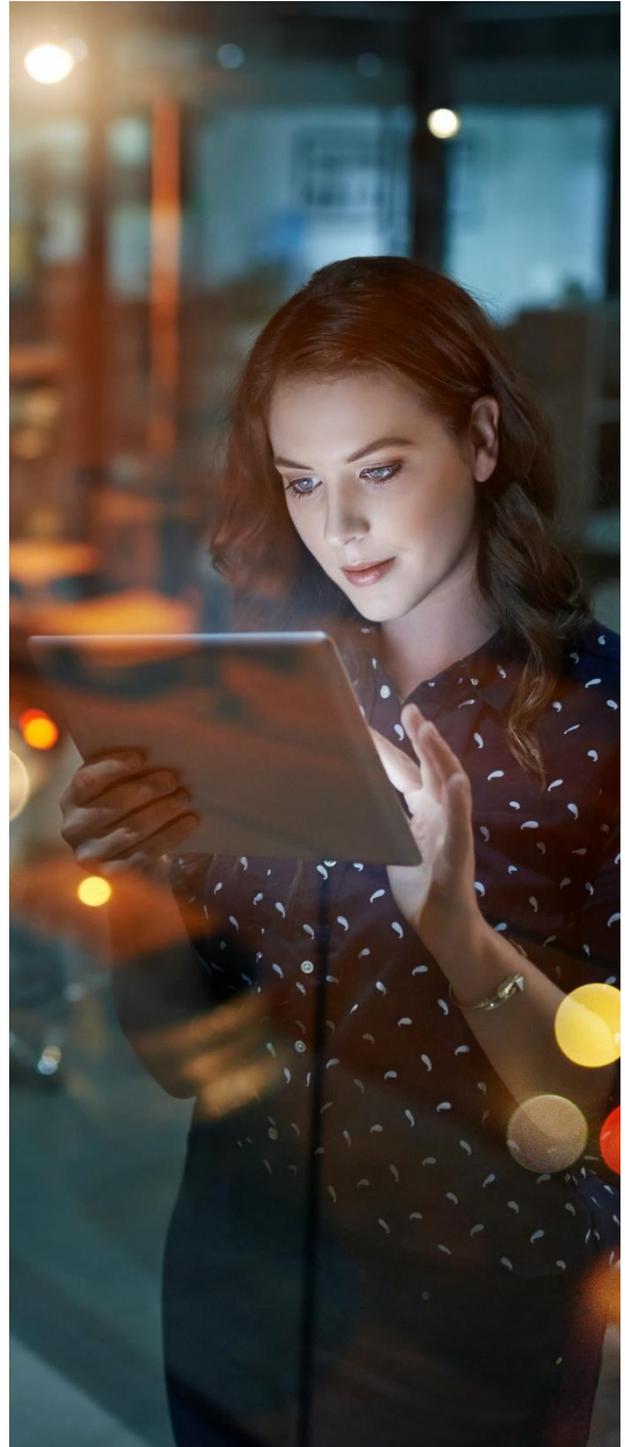


**The amount of value sitting in ‘dark’ data is tremendous. Data is the new gold and our clients are struggling with how to mine it.”**

Jorge Blanco, Principal, Advisory, KPMG in the US

This is especially true when considering new business models that allow any company – regardless of size or industry – to be more nimble and scale faster. By accessing services, rather than growing internal functions and infrastructure, and by capitalising on emerging technologies like AI, 21st century enterprises can generate insights from massive amounts of data, to improve business operations and transform customer experience.

The IT function of the future can help organisations substantially reinvent data supply chains, increase data modularity and governance, author and architect new semantic data taxonomies, deploy advanced Application Programming Interface (API) marketplaces, and foster advanced self-service analytical capabilities.



## Accept the challenge

The rationale and promise of digital transformation is real. Delivering on the potential benefits of a future-ready, connected enterprise is challenging, requiring extensive IT involvement. In many cases, the IT function may have to go through its own transformation to be an effective business partner in a digital world. That rewrite is no small task and relying on outdated ways of delivering technology-enabled business change is unlikely to work.

Although these six ingredients are not new, many organisations are experiencing some challenge in defining and scoping their efforts. But these ingredients aren't binary – an organisation is not entirely 'modern delivery' or not. What is new is the need for the proper scope and scale to implement – and gain connected enterprise benefits. We believe this issue is so critical that organisations should focus as if their last breaths depend upon it.

# Why KPMG?

KPMG member firms recognise that CIOs and IT leaders face increasingly complex demands and challenges. Today, IT should advance the business, not just support it. Boards increasingly expect returns on digital investments and successful digital transformation strategies that improve agility and responsiveness and enhance customer experience.

KPMG professionals can help CIOs, technology leaders and business executives to harness new technology and improve the strategic value of their technology investments. If your business is seeking ways to leverage technology as a source of innovation and competitive growth, KPMG member firms can help.

## Related reading

This paper is part of KPMG's Future of IT series, exploring the six most important IT issues that market leaders will do in IT over the next 5 years. For more on the Future of IT and to read other papers in the series, please visit [kpmg.com/uk/Future-of-IT](https://kpmg.com/uk/Future-of-IT).

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